JURISDICTION IN PATENT CAUSES.

THE federal courts are given exclusive jurisdiction over patent causes.[1] Yet the problem of venue and of determing just what federal court has jurisdiction over particular defendants in certain patent suits is one of some considerable complexity.

THE PROBLEM.

A concrete case is of the greatest practical advantage in the discussion of one of the most difficult of these jurisdictional problems: *when do you secure jurisdiction over a non-resident defendant in a patent cause?*

Select, for instance, the case of a manufacturing corporation located at Indianapolis, Indiana. The company offers to the public a variety of machines used as office equipment in different lines of commerce. These machines utilize paper, ink, etc., as supplies. A man in Chicago, Illinois, hears of the Indiana company and contracts with that company to solicit orders for it for its goods and supplies, agreeing to keep an office in Chicago, to pay the rent for this office himself, to put the name of the company on the door above his own, to carry stock of the company's supplies, to fill out orders on the company's order blanks and forward the orders to the home office in Indiana for approval, filling and shipment.

The Chicagoian solicits orders and fills out a number of order blanks with customers' orders. These orders are forwarded to Indianapolis, where they are approved, and from which point the goods are shipped. All the accounts and books for the business are kept at the home office in Indianapolis. The Chicago salesman secures the signature of the purchaser on these order blanks and the purchaser completes his part of the transaction by signing the order blank and by paying for the goods in due season. This order form has these phrases appearing on it: (1) "This

[1] U. S. Const., art. 1, § 8; Judicial Code, 1912, § 256.

order is taken subject to the approval of the Company, and, if accepted, will have prompt acknowledgment from the factory." (This appears at the top of the order blank.) (2) "All goods shipped f. o. b. Indianapolis, Ind." (This appears near the bottom of the order blank.) (3) "The Atlas Register Company, Indianapolis, Ind." (This appears under the last and final signature of the vendor, and such signature at Indianapolis is necessary for consummation of the order which precedes it.)

The Indiana corporation is sued by an Illinois corporation at Chicago. Process is served on the sales solicitor at his office in Chicago, the door of whose office bears the name of the Indiana corporation and below it the name of the salesman.

The marshal's return runs as follows:

> "I have served this writ within my district in the following manner to wit:
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> "Upon the within named The Atlas Register Company, by reading the same to and within the presence and hearing of Ohmer, resident agent of said company, and at the same time giving him a copy thereof, at Chicago, Illinois, April 8, 1916.
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> "I am unable to find the president, or any other officer of said Company, within my district.
>
> Arthur Hendrick, United States Marshal,
> John Luther, Deputy."

THE QUESTION.

The question immediately arises, has the District Court of the United States for the Northern District of Illinois jurisdiction over the Indiana corporation by service upon the sales solicitor? The following discussion and analysis of authorities is an attempt to answer that question.

THE STATUTE.

> "In suits brought for the infringement of letters patent the district courts of the United States shall have jurisdiction, in law or in equity, in the district of which the defendant is an inhabitant, or in any district in which the defendant, whether a person, partnership, or corporation, shall have committed acts of infringement and have a regular and established place of business. If such suit is brought in a district of which the defendant is not an inhabitant, but in

which such defendant has a regular and established place of business, service of process, summons, or subpœna upon the defendant may be made by service upon the agent or agents engaged in conducting such business in the district in which suit is brought." [2]

FACTS REQUIRED FOR JURISDICTION.

From the authorities, and the statute quoted above, it would seem that two fundamental facts must be present in a cause in order to give a court jurisdiction over a non-resident defendant in a patent suit. These facts are:

(1) A regular and established place of business of the defendant in the jurisdiction.

(2) The commission of an act of infringement by the defendant in the jurisdiction.

Both of these facts must concur.

BOTH FACTS NECESSARY.

In Bowers *v.* Atlantic G. & P. Company,[3] Judge Cox held that infringement alone, or a regular and established place of business alone, in the district foreign to the domicile of the defendant, would not give jurisdiction. Both of these facts must concur, he held. He sustained the plea to the jurisdiction. In that case the defendant was a West Virginia corporation; it had a place of business in the southern district of New York; it never infringed in that district; the infringement complained of was in Savannah, Georgia; the defendant's president resided in the eastern district of New York; the defendant's secretary and treasurer resided in the southern district of New York. *Held,* no jurisdiction over the company.

"The law says, if a corporation be sued outside the district of which it is an inhabitant, that it must be in a district where there is infringement and a regular place of business. Infringement alone will not give jurisdiction, both must concur. This is the law of 1897."

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[2] Judicial Code, § 48, 36 Stat. L. 1100, Comp. Stat. 1911, p. 149, Fed. Stat. Ann., 1912 Supp., vol. 1, p. 153. (Act of March 3, 1897, ch. 395, 29 Stat. L. 695.)

[3] 104 Fed. 887.

In Shaw *v.* American Tobacco Company,[4] an action at law for damages for the infringement of a patent was dismissed on the ground that one of the two jurisdictional facts was missing, namely, no sufficient allegation that the infringing acts were committed within the jurisdiction of the court. It was held that both the infringing act must be committed within the jurisdiction of the court and the defendant must have a regular established place of business within the same jurisdiction.

Gray *v.* Grinberg [5] sustained the lower court in dismissing the bill for want of proof of an infringing act in a district other than that of the residence of the defendant. There seems to have been an established place of business, but the proof failed to show the other requirement, namely, the consummation of a sale or infringing act.

In Rumford Chemical Works *v.* Baking Powder Company,[6] Judge Hazel held that both a regular established place of business and an infringing act within the district must be present in the case before the court's jurisdiction would attach. The bill was dismissed for want of jurisdiction.

In Westinghouse Electric Co. *v.* Stanley Electric Co.,[7] Judge LaCombe had this same question of jurisdiction under the act of 1897 before him. The cause came on for hearing upon a motion for a preliminary injunction, and the question of jurisdiction was raised. The court held that the "completed" act of infringement must be proved to have been committed in the district where the action was brought. It must be proved that there was a manufacture, or a use, or a "sale within the district; contracts to manufacture, threats to use, *negotiations for sale,* will not be sufficient, for the reason that the statute requires proof of the completed act."

In Cheatham Co. *v.* Transit Co.,[8] Judge Chatfield dismissed the cause against a defendant residing out of the jurisdiction where there was a failure to show both acts of infringement and a regular and established place of business.

The same rule has been laid down in the California district by

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[4] (C. C. A.), 108 Fed. 842.
[5] (C. C. A.), 159 Fed. 138.
[6] 145 Fed. 953.
[7] 116 Fed. 641.
[8] 191 Fed. 727.

Judge Beatty in U. S. Consolidated, etc., Co. *v.* Phœnix, etc., Co.[9] This case holds that the defendant "*must* have *both* a place of business *and* have infringed the patent in such district."

In Feder *v.* Fielder & Sons,[10] in an infringement suit where the jurisdiction of the circuit court was questioned, there was a foreign corporation as the defendant. This corporation was a non-resident of the district in which the suit was instituted. Judge Hazel held that the defendant must have both a regular and established place of business within a district and have committed an act of infringement within the district.

In Weller *v.* Pennsylvania R. Co.,[11] Judge Hallett held that a foreign corporation whose agent had authority to solicit business only and consummate no contracts finally, had no "regular and established place of business" within the jurisdiction. It was also held that in suits where there were infringements of patents, that the courts have jurisdiction only when infringement is committed and the defendant has a "regular and established place of business" within the district; both facts must concur.

Judge Hallett said:

> "In the act of March 3, 1897, it is provided that the cause of action must arise in the district; that is to say, by the express terms of the act there must be acts of infringement in the district. The right to sue upon a patent, therefore, must arise in the district. And, in addition to that, the defendant in the suit must have a regular and established place of business,—probably with reference to the acts of infringement, which are also mentioned in the act. I think, therefore, it is reasonable to assume that the provision of the act of congress in respect to doing business within the district, which is necessary to give jurisdiction to the court, is something more than was held to be sufficient in some instances under the act of 1887.
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> "If I am mistaken in that, there are decisions made under the act of 1887 which appear to me to be satisfactory, and they are to the effect that under that act an agent to solicit business within the district is not a representative of the corporation in the sense that he may receive service of

[9] 124 Fed. 234.

[10] 116 Fed. 378.

[11] 113 Fed. 502.

process in the district. The cases are N. K. Fairbanks & Co. *v.* Cincinnati, N. O. & T. P. Ry. Co., 4 C. C. A. 403, 54 Fed. 421, 38 L. R. A. 271, which was followed in Wall *v.* Railway Co., 37 C. C. A. 129, 95 Fed. 399. These are decisions of the circuit court of appeals of the Seventh circuit. There is a circuit court decision to the same effect of earlier date. Maxwell *v.* Railway Co. (C. C.), 34 Fed. 286."

What Constitutes Infringing Act.

Effect of Solicitation of Orders.

In Dixie Cotton Felt Mattress Co. *v.* Sterns, etc.,[12] before Judges Grosscup, Baker and Seaman, where the evidence was that a manufacturing corporation of another state maintained a warehouse in Chicago, advertised such warehouse as a "salesroom," stored its goods there before sale and delivered goods from that salesroom; but it was not shown that any sale was made there or at any other place than at the home office of the company, it was held that this was not "doing business" in Illinois within the meaning of the statute of that state.[13]

In this regard Judge Grosscup said:

"The statute of Illinois is directed against corporations 'doing business' in this State in contravention of the act. The purchase and sale of goods at Cincinnati, in the state of Ohio, to be shipped into Illinois, is not 'doing business' in Illinois. Havens, etc., Co. *v.* Diamond, 93 Ill. App. 557; March-Davis Cycle Mtg. Co. *v.* Strobridge Lithographing Co., 79 Ill. App. 683; Rock Island Plow Co. *v.* Peterson, 93 Minn. 356, 101 N. W. 616. Neither, in our opinion, is the purchase and sale of goods at Cincinnati, in the State of Ohio, to be delivered to somebody in Illinois from goods already deposited in a warehouse in Illinois for that purpose, 'doing business' in Illinois, within the meaning of the statute; for, in the one instance as much as in the other, the transaction is not an Illinois transaction, but an interstate transaction—something clearly within interstate commerce."

In Holder *v.* Aultman,[14] where there was a contract of a for-

[12] (C. C. A.), 185 Fed. 431.
[13] (Hurds R. S., Ill., § 32, 67g.)
[14] 169 U. S. 81.

eign corporation, signed by its local agent and by the other party within the jurisdiction and stipulating that the contract was not valid unless countersigned by its manager within the jurisdiction and approved at its home office in another jurisdiction, it was held the contract was not made in the jurisdiction in which the suit was brought, even though the contract was to be performed within the same jurisdiction. Like the contract in the present instance, it was not executed by both parties so as to become binding upon both until it was signed by the duly authorized representative of the foreign corporation at its home office.

In Westinghouse Electric Co. *v.* Stanley Electric Co.,[15] Judge Lacombe said further:

> "There is no pretense of infringement in this district by any manufacture or use, and the testimony falls short of proving an actual sale here. Representatives of the defendant company have entered into negotiations in this city for sales of the machines, which it manufactures at Pittsfield, Mass., but none of these representatives have had power to bind the complainant [evident misprint for defendant] to terms of sale. The purchasers' proposals have invariably been forwarded to Pittsfield, and there accepted by defendant and delivery made. The completed act of alleged infringement by sale is therefore not committed in the Southern district of New York, and this court is consequently, upon the proof as it stands, without jurisdiction to issue an injunction against the defendant corporation."

One who goes into another state and merely solicits and takes orders is not a citizen of that state and the state has no jurisdiction over him to tax him for exercising such privilege.[16]

Several cases define what constitutes doing business in the state.[17] Travelling salesmen soliciting orders and then sending the contracts for approval outside the state are not doing business within the state. Goods have even been carried in stock in the state for a salesman and orders filled from that stock, though

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[15] *Supra.*

[16] Robbins *v.* Shelby County Taxing Dist., 120 U. S. 489; and cases cited.

[17] See March-Davis Cycle Mfg. Co. *v.* Strobridge Lithographing Co., 79 Ill. App. 683; Havens & Geddes Co. *v.* Diamond, 93 Ill. App. 557.

no sales were consummated within the state, and still it did not constitute doing business within the state.

Thus, on the facts of this illustration, it is clear that no jurisdiction obtains against this Indiana corporation.

In the United States Envelope Co. *v.* Transo Paper Co.[18] Judge Thomas held that where a defendant had no established place of business the court had no jurisdiction, though the defendant had an agent in the district who, in the course of his business, used infringing articles; that it was immaterial whether he had power to complete contracts or was merely authorized to solicit orders and forward them to the home office for execution. And further, that consent of the parties could never confer jurisdiction upon a federal court; and any jurisdictional fact prescribed by the statute was absolutely essential and could not be waived, and the want of it could be raised at any stage of the cause.

This case, throughout, does not conform with the general rules laid down by the authorities. The weight of authority is that an agent within the district with power to consummate sales does conduct an established place of business of the non-resident defendant. The use of an infringing article within the district by the defendant's agent certainly is an infringement; a sale, a use or a manufacture within the district is an infringement.

As to the matter of waiver of jurisdiction, jurisdiction over the non-resident defendant is a question of venue and a question of jurisdiction over the person. Jurisdiction over the person can be waived. Jurisdiction in this case can be waived by entering a general appearance. It is a practice of counsel for the defendant when raising this question of jurisdiction over the person of a non-resident defendant to raise it by the proper pleading upon a special appearance. The federal court has jurisdiction over the subject matter, because all district courts have exclusive jurisdiction of patent causes. The sole question is jurisdiction over the person of the defendant.

> "If the court has jurisdiction of the subject matter, a general or voluntary appearance confers jurisdiction of the person;

[18] 229 Fed. 576.

such an appearance waives the objection of want of jurisdiction over the person." [19]

Judge Thomas, in this recent Connecticut case, cites a number of authorities to the point that consent of parties can never confer jurisdiction upon a federal court. It is true that consent of parties can never confer jurisdiction over the subject matter, nor can consent of parties confer jurisdiction where the statute specifically bases jurisdiction of subject matter upon residence, as in case of diversity of citizenship. The cases he cites supporting this principle deal with diversity of citizenship only. But that was not the point which he was called upon to decide. In the case in consideration, the court had jurisdiction already of the subject matter, and it was only a question whether it had jurisdiction over the person, namely, the question of venue. Hence, the decision of the court was not directed to the point at bar, and is not authority or decisive of the question under consideration.

The defendant's right to object that an action within the general jurisdiction of the court is brought within the wrong district is waived by entering the general appearance without taking an objection.[20]

In the unreported case of United Autographic Register Co. *v.* The Egry Register Co.,[21] the court held that, under facts somewhat similar to those first stated in this article, there was a regular and established place of business of the defendant corporation within the jurisdiction, though no active infringement was consummated; and therefore the court did not have jurisdiction over the non-resident defendant.

Whether there was in this case a regular and established place of business within the meaning of the statute, as interpreted by the various courts, seems to the writer to be a matter of serious question. The courts are far from being at one upon the matter. It seems that many of the opinions have never been reported. In view of the late decision of the Supreme Court cited below, there should be no question as to the disposition of such

[19] 2 ENCY. U. S. SUP. CT. REP. 444; and cases cited.
[20] 2 ENCY. U. S. SUP. CT. REP. 452; and cases cited.
[21] In Equity No. 30989, in the Northern District of Illinois.

a case. But the situation as yet is still one of considerable confusion on an important and fundamental matter, despite this decision. No one opinion has made a complete and thorough analysis of the entire situation.

In Tyler Co. *v.* Ludlow-Saylor Wire Co.,[22] on a case going up from the United States court for the Southern District of New York, it was held, Mr. Justice McReynolds speaking for the Court, that paying an agent who was also employed by another corporation (and who shared expenses with another corporation of an office in the district in which the suit for an infringement of the patent was brought) to solicit orders to be executed at its home office did not amount to having a regular and established place of business such as would subject a foreign corporation to the jurisdiction of the federal court under the act of March 31, 1897. It was further held that where an agent solicits an order in one state and forwards it to his principal at its home office in another state and the goods are sent direct from the principal, the sale is consummated in the latter state and does not constitute an infringement of a patent in the former state; it is not a sale in the former state.

Appeal on the Jurisdictional Question.

The whole subject of appeal has been very clearly summarized in United States *v.* Jahn.[23] The Supreme Court held in this case as follows: (1) If the jurisdiction of the circuit court is in issue and decided in favor of the defendant, as that disposes of the case, the plaintiff should have the question certified and take his appeal or writ of error directly to this court. (2) If the question of jurisdiction is in issue, and the jurisdiction sustained, and then judgment or decree is rendered in favor of the defendant on the merits, the plaintiff, who has maintained the jurisdiction, must appeal to the circuit court of appeals, where, if the question of jurisdiction arises, the circuit court of appeals may certify it. (3) If the question of jurisdiction is in issue, and the jurisdiction sustained, and the judgment on the merits is ren-

[22] 236 U. S. 723. See also, General Electric Co. *v.* Best Electric Co., 220 Fed. 347.

[23] 155 U. S. 109. See also, Montgomery, Manual Fed. Proc, 482.

dered in favor of the plaintiff, then the defendant can elect either to have the question certified and come directly to this court, or to carry the whole case to the circuit court of appeals, and the question of jurisdiction can be certified by that court. (4) If in the case last supposed the plaintiff has ground of complaint in respect of the judgment he has recovered, he may also carry the case to the circuit court of appeals on the merits, and this he may do by way of cross-appeal or writ of error if the defendant has taken the case there, or independently, if the defendant has carried the case to this court on the question of jurisdiction alone, and in this instance the circuit court of appeals will suspend a decision upon the merits until the question of jurisdiction has been determined. (5) The same observations are applicable where a plaintiff objects to the jurisdiction, and is, or both parties are, dissatisfied with the judgment on the merits. This case has been discussed, approved and affirmed by a number of cases.[24]

SUMMARY.

(1) Both the act of infringement and the regular and established places of business in the district must concur to give jurisdiction over a non-resident defendant in a patent cause.

(2) Jurisdiction over the person of a non-resident defendant in a patent cause is waived by a general appearance.

(3) Infringement may consist of either making, using or selling the infringing device within the district, or doing one or more of these acts; it must be a consummated act, not a threat to complete it.

(4) A regular and established business is one where the defendant has an office authorized to consummate sales within that jurisdiction.

(5) The question of jurisdiction can be raised at any time

[24] In re Lehigh, etc., Co., 156 U. S. 322; Shields *v.* Coleman, 157 U. S. 168, 176; The Bayonne, 159 U. S. 687, 692; Anglo-American, etc., Co. *v.* Davis, etc., Co., 191 U. S. 376; New Orleans *v.* Emsheimer, 181 U. S. 153, 154; Carter *v.* Roberts, 177 U. S. 496, 500; In re Tampa, etc., Co., 168 U. S. 583, 588; Davis *v.* Cleveland, etc., Co., 217 U. S. 157, 172; Fore River, etc., Co. *v.* Hagg, 219 U. S. 175; Tang Tun *v.* Edsell, 223 U. S. 673, 682.

during the progress of the cause, but the logical time would be after the bill was filed before answering. The question should be raised by motion or answer in an equity suit or by plea or answer in a law action.

(6) Review by higher courts should proceed as follows:

(a) If the decision is in favor of the defendant, the plaintiff can go direct to the Supreme Court of the United States.

(b) If the question of jurisdiction is decided in favor of the plaintiff, and the decision on the merits is in favor of the defendant, then the plaintiff must appeal to the circuit court of appeals, where, if the jurisdictional question arises, the court of appeals can certify the question of the Supreme Court.

(c) If the question of jurisdiction and merits are both decided in favor of the plaintiff, the defendant can elect to have the question certified by the Supreme Court or go to the court of appeals on the merits and then have the question certified.

(d) When the situation is as in (c), but the plaintiff objects to the decision, the case may go to the court of appeals on its merits, whether defendant elects to go there or not; if the defendant goes direct to the Supreme Court, then the court of appeals suspends its action until the determination of the question in the former court.

(e) The same result occurs if the plaintiff objects to jurisdiction and both parties are dissatisfied with the decision on the merits.

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